SOCIETY of AMERICAN FLORISTS

STATEMENT BEFORE THE

COMMITTEE ON ENERGY AND COMMERCE

U.S. HOUSE OF REPRESENTATIVES

HEARING ON

GASOLINE: SUPPLY, PRICE, AND SPECIFICATIONS

submitted by

JOHN R. WILKINS
EXECUTIVE VICE PRESIDENT
DELAWARE VALLEY FLORAL GROUP
SEWELL, NEW JERSEY

on behalf of the

SOCIETY OF AMERICAN FLORISTS

May 10, 2006

Contact:

Lin Schmale
Senior Director – Government Relations
Society of American Florists
1601 Duke Street
Alexandria, VA 22314
(703) 836-8700
lschmale@safnow.org

Mr. Chairman and distinguished members of the Committee, the Society of American Florists appreciates the opportunity to present this testimony, discussing a topic very important to the floral industry, as it is to other segments of our economy: the price of fuel.

I am John Wilkins, the Executive Vice President, and one of the second-generation family owners of the Delaware Valley Floral Group. I have served on the Board of Directors of the Society of American Florists, and I am also a past president of the Wholesale Florist and Florist Supplier Association.

The Delaware Valley Floral Group is now in its third generation. One of our divisions is Delaware Valley Wholesale Florist, which was founded by my father in 1959. Our headquarters is in Sewell, New Jersey, and we have locations in Edison, New Jersey; Baltimore, Maryland; and Miami, Florida. Another one of our divisions, Flower Transfer, provides transportation and logistical services to the floral industry, and operates a fleet of tractor-trailers.

The Society of American Florists (SAF) is the national trade association representing the entire floral industry, a $19.5 billion component, at retail, of the U.S. economy. SAF membership includes some 10,000 small businesses: growers, wholesalers, retailers, importers, suppliers, educators, and related organizations, located in communities nationwide and abroad. It encompasses a market chain including growers, wholesalers, transporters, importers, distributors, and retail stores – all of whom are impacted by the price of fuel. The industry produces and sells cut flowers and foliage, potted foliage plants, potted flowering plants, bedding plants, and florist supplies.

U.S. Department of Commerce and Department of Agriculture figures show that there are over 10,000 floriculture growers in the U.S., over 1,000 wholesalers, and over 22,000 retail florists. More than 350,000 people are employed in commercial greenhouses, wholesale florists and retail florists. Despite the industry's large size and economic strength, it is made up largely of small, family-owned businesses. Many floriculture growers, wholesalers and retailers own businesses which have been in their families for several generations.

As a wholesale distributor and logistics provider, Delaware Valley purchases floral products – fresh-cut flowers, greens, flowering and foliage plants and hard goods -- from growers, manufacturers and importers, and sells them to retail florists, supermarkets, mass marketers, and other retail outlets of flowers, greens, and floral products, who in turn resell them to the end consumer. As a result of the increasing globalization of trade, the growth of e-commerce and the Internet, and changes in the U.S. and global economy, the flower industry, just like many other small businesses across America, continues to experience challenges.

FUEL COSTS IMPACT EVERY STEP IN THE MARKET CHAIN OF THE FLORAL INDUSTRY

Other than labor costs, perhaps no single factor has more power to impact the bottom line of floral businesses than the cost of fuel. From growers to wholesalers to retailers, an increase in fuel prices can dramatically impact the bottom line. I want to talk with you more about how our industry works – the various points at which gasoline and diesel fuel, as well as jet fuel, impact the industry. I think it will help you move from the impact of fuel prices on consumers and consumer spending to the impact on businesses, employment, and our economy more generally. As I discuss the various parts of the market chain, I will talk about jet fuel, diesel fuel, and gasoline prices – all of which factor into the prices of floral product as it moves from grower to importer or wholesaler to retailer to consumer.

As you buy flowers for your mothers, or wives, or daughters, this coming weekend in celebration of Mother's Day, I am estimating that up to 50 percent of the cost of the flowers is attributable to transportation costs. That's not counting the percentage that might be attributable to other fuel prices –heat for greenhouses and electricity for refrigeration, for example. Transportation costs alone, at a very rough estimate, account for up to 50 percent of the cost of flowers you buy.

First of all, a large percentage of the most popular cut flowers sold in the U.S. are grown overseas – in South America or in Europe – even in Africa and Asia. And our domestic production of cut flowers – which remains a very important part of the industry as well – takes place primarily in California, Florida, Washington, Hawaii and Oregon. Obviously, fuel costs to transport those flowers through the market chain to consumers are going to play a big role.

If produced in, say, Colombia, the flowers must come by air carrier, to one of the major U.S. ports – usually Miami. Depending on the country of origin, flights could come also through JFK in New York, through Los Angeles and San Francisco, through Chicago, through Houston. The cost of air transportation, obviously, is significantly affected by the price of jet fuel.

When the flowers reach the port – say, of Miami – they are unloaded from the plane and taken through U.S. Customs. After they have cleared customs, the broker then moves them -- again by truck or other motorized transport – and they are loaded either onto another plane or to refrigerated trucks, for shipment, usually to importer's warehouses or to wholesalers. From the port, the flowers are again stored under refrigeration until they are shipped to the retail florist or other outlet for sale to consumers. Taking my example, the Port of Miami alone handles 32,500 boxes of flowers every day – so these operations are large, complex – and when an increase in the price of fuel is added into each step, it has a big impact on the industry's ability to plan and to survive.

Flowers will not perform well for the consumer unless they are maintained at a cool temperature. Extreme heat can destroy flowers quickly. At the very least, it will result in a greatly reduced vase life for the consumer. Research in our industry has found that roses, for example, will last much longer if they are kept at something between 30 and 35 degrees F. during the entire time from cutting until they reach the ultimate consumer.

Delaware Valley's policy is to require that all trucks maintain refrigeration within that range. Refrigeration makes truck transportation more expensive.

The process described above is also true for flowers coming from U.S. growers into the market. From California, Florida, or wherever they are grown, the product must be carried quickly, with proper refrigeration, to the wholesale and the retail customer – and finally, of course, to the ultimate consumer. Again, refrigeration is required and contributes to the fuel costs. Growers and importers precool their products before shipping. They also require that the tractor-trailer rig which carries flowers from the farm or warehouse to the wholesaler be precooled. The truck may have to sit in the yard with its engine and refrigeration running, while the trailer gets cool enough to load the flowers safely.

Next, the product moves again to one of the U.S. wholesale operations like Delaware Valley. It must be carried in refrigerated tractor-trailer rigs or by air, for example, from Miami to Philadelphia. Time is of the essence in floral transportation, so we want to get the flowers into our refrigerated warehouses and back out to our florist or other customers as quickly and safely as we can.

For our operations, once the product gets to Delaware Valley, we have a fleet of 101 refrigerated chassis-cab delivery trucks, which move floral product from our facilities to those of the retailers, supermarkets, and other customers all over the U.S.

All of the Delaware Valley trucks – the tractor-trailer rigs and the chassis-cab delivery trucks -- use diesel fuel, although the trucks of many wholesalers may be using gasoline. Either way, the unpredictability of fuel prices makes business planning difficult. Two years ago, our price of diesel fuel was $1.57/gallon. Today, it's $2.74/gallon – that's an increase of $1.25 over two years. (It should be noted that Delaware Valley buys diesel fuel in 10,000-gallon lots. At the pump, the price would be significantly higher.) But even though we can achieve economies of scale, the price increases will impact our business planning, and, ultimately, our ability to make a profit. And it's more complex than that: the average diesel fuel price in 2005 was $2.26/gallon -- but in January of 2005, the price was $1.85. The yearly average price in 2003 was $1.29/gallon. For the business owner, you can see how difficult it is to predict what the costs are going to be and incorporate that into realistic business planning.

Once the flowers reach the florist shop, we still aren't finished with transportation costs. As you well know, florists usually deliver floral arrangements directly to your home or office – so we have yet another incremental, fuel-cost addition: here, the price of gasoline for the florist's delivery truck. The great majority of floral purchases are delivered directly to the consumer – to the home, the office, or the location of a special event.

HOW ARE FLORAL BUSINESSES COPING WITH INCREASED COSTS?

At the end of 2004, SAF did a survey of retail florists which showed some of the following results:

> "With gasoline prices still hovering around the $2-per-gallon mark … almost 40 percent of recent retail florists responding say they're absorbing higher gasoline prices so far – compared to the 50 percent who reported absorbing higher prices in May. Eleven percent of recent respondents reported they've increased product prices, versus 7 percent earlier in 2004. About half of respondents reported that they have raised delivery fees to compensate for higher costs. Fee increases (per delivery) range from 50 cents to $4. Florists reported other ways of compensating – including redesigning delivery routes, calling customers to make sure they're home before deliveries, and urging drivers to fill tanks whenever they see lower gasoline prices. **About 50 percent of these respondents say gasoline prices are affecting profits more than heating prices and health-care costs.** In December, 2004, at the time of this survey, the national average price per gallon of regular gas was $1.95, about 31 percent higher than the same time the year before. The West Coast reported averages of $2.16 per gallon and the Gulf Coast reported a lower average of $1.84 per gallon." [SAF Press Release, December 9, 2004]

That survey was taken a year and a half ago – with prices around the $2/gallon mark. The average retail price of a gallon of gasoline rose almost four cents across the nation during the past two weeks, according to a Lundburg Survey released last Sunday. Self-serve regular averaged about $2.94 a gallon, and the average price of mid-grade was $3.04/gallon. Premium hit $3.14 a gallon, compared with $3.10 two weeks ago. SAF is again surveying retailers to see how they are responding, in this very busy period right before Mother's Day.

I haven't touched, in this testimony, on the cost of natural gas, because it's not a topic of this hearing. Natural gas is used to heat the greenhouses in which flowers and plants must be grown in most parts of the U.S. – and natural gas prices, as you know, have also increased dramatically. Grower after grower has mentioned to us how the situation is reaching crisis proportions. Growers in the U.S. are closing or sealing off portions of their facilities, letting greenhouses lie vacant, because it's too expensive to heat them.

Our industry can't continue to absorb those price increases – which impact every step of the chain, from grower to consumer. All of the costs of transportation must get pushed along and reflected in the price of the product, if our market system is to work.
Yet there is a limit to which they can be passed along to the ultimate consumer.

We in the floral industry have an added wrinkle. Flowers are not a necessary purchase – they are a discretionary purchase. We compete for the consumer's dollar against things like wine, chocolate, or other gifts, even in good times – and in tighter times, we have to compete against other choices the consumer might have for available spending – movies, college educations, vacations, and so on. The point is, there is a limit – and not a very high one – to how many costs we, as businesspeople, can pass through to the consumer. So the increases in fuel costs are tending to come out of our own profits – at every step along the chain: brokers and importers in Miami, trucking companies, airlines, growers, wholesalers and, of course, the retailer who finally sells the product to you.

Even though Americans think of flowers as an integral part of holidays – Valentine's Day, Mother's Day, Thanksgiving, Christmas – and as an integral part of formal occasions – like weddings, funerals, christenings, business banquets, and high-school proms – Americans are not high per-capita consumers of flowers when compared with our European counterparts. We in the U.S. spend about $31 on cut flowers per capita per year, compared with $55 in Denmark or Belgium, $72 in Holland, or $112 per capita in Switzerland. Our industry continues to work together on joint marketing and promotion efforts for flowers, to increase the demand. But to make those efforts work well, we have to supply good-quality, long-lasting product to the consumer when and where the consumer wants to buy it. Fuel costs are a major consideration.

To make matters worse, the traditional retailers in our industry – made up by far for the most part of small business owners, often family-owned businesses, sometimes owned by a family for three or four generations – are now under extreme pressure from the supermarkets and mass marketers. Retail flower shops are a difficult business, and retailers go out of business at a relatively high rate.

All of these incremental fuel cost increases from each segment of the market chain – fuel for air transportation, truck fuel, gas to deliver to consumers' homes and offices – add together to compound the final cost of the product, and to make business-planning very challenging. And of course the real question is whether those additional, sometimes very unpredictable costs can be passed along to the consumer or absorbed by the business without harming the business and ultimately, our economy.

What are we doing at Delaware Valley to help counter these increased costs and avoid laying off employees or downsizing our business? We have had to increase our delivery charges to our retail customers. We are imposing a 22 percent fuel surcharge over our normal rate to our transportation customers (product that, for example, we might carry for other wholesalers, product carried to mass marketers, or product carried on "back-hauls," (the return-run of an otherwise-empty tractor-trailer). At this point, most of the transportation companies are also assessing fuel surcharges.

We are a large company, and our transportation is efficient. We utilize computer tracking. We are experimenting with different types of fuel-efficient trucks. We are encouraging our customers to place fewer, but larger orders to save on transportation costs. We're doing everything we can to counter the increases in gas and other fuel prices. But we, as a company, would not be able to continue operations without imposing these fuel surcharges at this point in time. As rising fuel costs cut further and further into businesses' already low margins, the additional costs added will quickly drive profits to zero – or into losses.

CONCLUSION

The U.S. needs a coherent energy policy: not price controls, not arbitrary government intervention – but an energy policy that will help our economy, and its businesses, large and small, be able to survive and deal with energy costs as a predictable cost of doing business.

As a business owner, we would encourage Congress and the Administration to work toward a more coherent national energy policy: for example, encouraging alternate fuel sources, encouraging more U.S. domestic production under environmentally safe practices. Government interference in the marketplace itself is usually viewed negatively by business, of course. The law of unintended consequences often seems to follow direct government intervention. But for business owners, like me and my family, to continue to employ and provide benefits for our employees, and plan ahead for our business operations, we must be able to buy fuel at reasonable, and reasonably predictable, costs.

I very much appreciate your giving the floral industry the opportunity to present some examples of the impact of fuel costs on our industry, and our employees, nationwide.

SUMMARY OF TESTIMONY
SOCIETY OF AMERICAN FLORISTS

- ♦ The floral industry – growers, wholesalers, transporters, importers, distributors, and retail florists – represents a major component of the U.S. economy: $19.5 billion, at retail.

- ♦ All of the businesses in that market chain are significantly impacted by the price of fuel. Other than labor costs, perhaps no single factor has more power to impact the bottom line of floral businesses than the cost of fuel.

- ♦ The increases, and the unpredictability of changes, in fuel costs combines with other uncertainties and changes impacting the industry (increasing globalization of trade, growth of e-commerce and the Internet, other economic changes) to challenge the floral industry, just as those changes impact other small businesses in our economy.

- ♦ Up to an estimated 50 percent of the cost of flowers is attributable to transportation costs.

- ♦ Fuel costs impact every step of the market chain. Imported flowers travel by air transport, which is significantly affected by the price of jet fuel. At the port, motor transport moves flowers through Customs and then back onto planes, or onto refrigerated trucks, for shipment to wholesalers. Domestic growers also must ship flowers either by truck or by air. Wholesalers then must ship flowers to retail floral shops, supermarkets, and other customers. Finally, florists usually deliver floral arrangements directly to the consumer's home, office, or event location. Each step in the market chain incurs transportation costs, which are significantly impacted by fuel prices.

- ♦ Adding to transportation and storage costs, flowers are a perishable product, and must be shipped and stored under refrigeration. Growers and importers precool their products before shipping and require that trucks be precooled and stay cooled during transport. Wholesale and retail florists also must maintain and ship product under refrigeration. Running trucks and delivery vans under refrigeration adds to fuel consumption and, therefore, to cost of transportation.

- ♦ The industry is assessing fuel surcharges, working to achieve better efficiency in delivery, and trying in other ways to counter increases in fuel prices. However, there is a limit to which fuel costs can increase without driving profits to zero – or into losses.

- ♦ Flowers are a discretionary purchase, competing for the consumer's dollar against other gift items (wine, chocolate, etc.). Therefore, increases in the cost of fuel cannot be fully passed through to the consumer without decreasing overall sales.

- ♦ The U.S. needs a coherent energy policy, that will help our economy and our businesses, large and small, be able to survive and deal with energy costs as a predictable cost of doing business.

John R. Wilkins
Executive Vice President
Delaware Valley Floral Group

Education

Graduate of Rider University, Lawrenceville, NJ – 1970
B.S. in Commerce, major in Accounting

Employment History

Joined Delaware Valley Wholesale Florist full-time in May, 1970

Managed the company's Accounts Receivable/Credit department

Managed the company's overall administrative departments and staff

Majority of career with the company spent in the area of Information Services and Technology. Moved the company from manual systems to its first computer system. Selected, implemented, managed and programmed the company's Information Services systems.

Related Industry Activities

Served as Treasurer and President of the Wholesale Florist & Florist Supplier Association, the national trade association of the wholesale florist industry. Led WF&FSA's electronic commerce committee and served as an active member of the Bar Code and Marketing Communications Committees.

Served on the Board of Directors and the Wholesalers' Council of the Society of American Florists, the national trade association representing the entire floral industry.

Member of American Academy of Floriculture (AAF), in recognition of industry and community service.

Community Activities

Served as Board Member and President of Mantua Township Business Association

Personal Information

Married to Lillian, who also works at DVFG as Director of Health, Safety and Security
One son, John Scott Wilkins, who is Delaware Valley's Director of Operations
Two grandchildren
Private pilot
Interests include gardening, civil aviation, home automation